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I. POLITICAL SITUATION

In sessions held thus far, the constituent assembly has exhibited a tendency to digress somewhat from its constitution drafting function, but has stopped short of creating a controversy with the government.

Political maneuvering among the deputies is continuing, but no well-defined trends have emerged as yet. The first real test of political power in the assembly will be the election of assembly officers, which will probably not take place until sometime next week. Actual work on the constitution will not begin until late this month or early in November.

Assembly Sessions

1. In sessions held thus far, the constituent assembly has generally avoided taking any controversial measures affecting its relations with the government, but at the same time has shown some tendency to diverge from its sole legal function: to draft a constitution. After listening to opening speeches by Chief of State Thieu, Premier Ky, and acting assembly chairman Nguyen Ba Luong on 27 September, the elected delegates staged a short but lively debate on the assembly's initial order of business. Sessions held during the rest of the week, which were interrupted by a holiday recess on 29 September, dealt mainly with the formation of three subcommittees and the discussion of one resolution and several messages.

2. Two of the subcommittees established thus far--on credentials and rules--are in accordance with the constituent assembly decree law, which provides that procedural rules must be adopted and that the credentials of at least two thirds of the deputies be certified before an assembly chairman, secretary general, and their assistants can be elected. The 25-man credentials committee, chosen by lot on 30 September, will soon begin the process

of certifying the credentials of the deputies. Some 23 deputies whose seats are being contested were barred from membership on the committee. In addition, the courts thus far have convicted two deputies of election irregularities, and unless the decision is overruled on an appeal, their election will be invalidated. The 15-man rules committee was elected by the assembly during the afternoon session on 30 September. Although more celebrated deputies did not contest seats on this committee, the election did serve to some extent as an initial test of regional and bloc loyalties, and pointed up the potential strength of southerners in the assembly.

3. The third subcommittee created by the assembly will deal with the question of relief for flood victims in the delta, and represents the assembly's determination to concern itself with issues not directly connected with constitution drafting. In addition, a resolution urging the government to release political prisoners was adopted by the assembly on 1 October. However, the resolution left to the government the decision as to which individuals or groups merited amnesty. The delicate problem of political prisoners is apparently being considered by the government in various ways, and the general nature of the assembly resolution will probably be of no particular concern to government leaders. In fact, the US Embassy has commented that there were some indications of prior knowledge and approval of the resolution by the government.

4. On 1 October, the acting assembly chairman was given the authority, within some general guidelines, to draft messages to the people and soldiers of Vietnam, the United Nations, allied countries with troops in South Vietnam, and to other friendly nations. The texts are not yet available, but there was no evidence that they dealt with any controversial subjects.

Assembly Schedule

5. Various sources have indicated that the assembly will not be ready to conduct the election

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for assembly officers--a chairman, two deputy chairmen, a secretary general, and several assistant secretaries general--until next week at the earliest. The actual drafting of a constitution, which will be done by a subcommittee, will probably not get under way until late this month or early in November. Finally, there is no firm indication as to whether the assembly will give early consideration to Article 20 of the decree law--the government's controversial veto over the assembly's work which lacks a two-thirds majority.

Maneuvering Among the Deputies Continues

6. Politicking among the deputies continues to be widespread and conflicting reports of influence within the assembly by various groups continue to be received. However, the real strengths of these regional, religious, and political blocs have not yet been clearly defined, and the first significant test of such alliances will come with the election of assembly officers.

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8. Meanwhile, military leaders are continuing to seek and receive advice from their South Korean

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counterparts on the problem of retaining the balance of power while effecting the transition from a purely military regime to a broader based, representative government in South Vietnam. Missions

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GVN Officials Reject Peace Negotiations With Viet Cong as Separate Party

10. Both Premier Ky and Foreign Minister Tran Van Do recently rejected any peace negotiations which included the Viet Cong as a separate party. Premier Ky flatly rejected the idea in a talk with newsmen in the delta city of Can Tho on 30 September. The next day, Foreign Minister Do declared that inclusion of the Viet Cong as a part of a North Vietnamese delegation at peace negotiations might be acceptable,

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but that separate representation for the Viet Cong was not. Both officials, along with other government leaders, plan to attend the seven-nation conference on Vietnam which is scheduled to begin sometime between 18 and 24 October in the Philippines. The agenda for this conference has not yet been finalized, but will probably include discussion of a common policy regarding a peaceful settlement in Vietnam.

Special Vatican Mission Visits South Vietnam

11. A special mission from the Vatican headed by Archbishop Sergio Pignedoli arrived in Saigon on 28 September to study the problems of the church in South Vietnam. On 30 September, the archbishop read a message from Pope Paul VI to the Catholic hierarchy in South Vietnam which stressed the need for Vietnamese Catholics to seek harmony with the Buddhist majority. Government sources indicated that the pope's special envoy had requested a meeting with the premier, to which Ky would probably agree. No specific date was immediately set, however. The archbishop's desire to see Premier Ky indicated that he might wish to discuss the general framework for a peaceful settlement in Vietnam.

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14. The US Embassy has reported that the agreement between the government and FULRO, the dissident tribal autonomy organization, seems to be holding firm. Plans are now being made to hold a small celebration in Ban Me Thuot on 10 October for the return of about 500 FULRO supporters to government control. A major celebration is scheduled a week later in Pleiku, which will be attended by some 5,000 montagnards from throughout the central highlands. USAID assistance in resettling returning FULRO supporters has been requested by II Corps Commander General Vinh Loc, and US officials are now assessing actual needs.

Village Elections May Be Held in Selected Areas Soon

15. Nguyen Van Tuong, the government's commissioner for administrative affairs, told newsmen on 1 October that plans are being made to hold elections for village councils and hamlet chiefs in government-controlled areas between February and March of next year. Between 700 and 800 of the country's 2,550 villages will probably be affected. At present, both hamlet and village leaders are appointed by the province chief. After the elections the elected village council would have new legislative powers and would choose their village chiefs.

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II. REVOLUTIONARY DEVELOPMENT

During August, slight gains were registered in the GVN's control of rural hamlets, population, and land. The number of hamlets under GVN control increased by 67 to 4,155 out of a countrywide total of at least 13,000. The people under GVN control, however, are now listed at 55 percent of the total population. USAID's programs, along with the transportation and logistics situation, were affected to some degree by the provincial preoccupation with the constituent assembly elections. In general, however, progress was evident in the distribution of commodities and in the maintenance of adequate quantities of supplies.

On 19 September, the second class of revolutionary development cadres, numbering 5,128, graduated from the national training center. The number of Chieu Hoi defectors from the Viet Cong rose slightly during the week ending 21 September. The recent daily average influx of defectors, however, is still not up to expectations.

Hamlet, Area, and Population Control

1. In the six months (March-August) since revolutionary development (RD) was accorded priority attention at the Honolulu Conference, there has been a net gain to GVN control of only 197 of the country's some 9,000 insecure hamlets. The addition of 67 hamlets in August to the "secure" category raises the total to date under GVN control to 4,155. The process of "securing" these hamlets is the heart of pacification around which the other aspects of the program revolve. It is a slow and painstaking effort to keep ahead of an enemy which places very high emphasis on control of the rural population and organizes most of its military and political forces to influence them. The monthly net gain in hamlets secured during 1966 follows:

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January	25
February	30
March	-9
April	-93*
May	156
June	42
July	34
August	<u>67</u>
Total	252

2. Small gains were also made in the numbers and percentages of population and land area secured during August. The addition of four tenths of a percent in secured populace and one tenth of a percent in secured land brings the totals to 55 percent of the people and 11.5 percent of the land area now being controlled by the GVN. During the month, 26 provinces and two of the autonomous cities showed progress in gaining control of their areas. In nine provinces and one autonomous city, there was no change. Eight provinces lost ground to the Viet Cong.

USAID Programs, Transportation, and Commodities

3. Generally, the transportation and logistics bottlenecks previously reported as inhibiting the implementation of civilian programs in Region I (I Corps) were overcome somewhat during August. Shortages of construction materials and insufficient deliveries of commodities, however, continued to hamper progress. USAID programs generally bogged down in Region II owing to the preoccupation of GVN officials with the constituent assembly elections and to active enemy interdiction of transportation routes. Commodities

*Unusual fluctuations during April and May primarily reflected changes in the data base and reporting criteria by MACV.

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were in short supply in some provinces, adding to the already high cost of construction materials.

4. In Region III, RD was subordinated to assembly election preparations and the situation remained basically unchanged. Hamlet school construction and refugee programs were, however, on or ahead of schedule in all the provinces. One province, Binh Tuy, was hard hit by a flood and had to rely almost entirely on sea and air transportation for relief. Viet Cong roadblocks in the province aggravated the natural problems. The USAID effort in Region IV improved as a result of helpful developments in the economy, logistics, and transportation. The completion of projects increased because of the delivery of adequate supplies of commodities. The primary reason for the high level of deliveries was the successful use of river barges as an alternate means of transportation. Only Kien Tuong Province presented a transportation problem because of continuously poor security. Construction costs continued their upward movement in Region IV due to competition among GVN, US, and private Vietnamese contractors for labor and materials.

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Viet Cong Defectors (Chieu Hoi)

6. With 36 of 43 provinces reporting for the week ending 21 September, defectors rallied by corps areas as follows:

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I Corps	34
II Corps	76
III Corps	79
IV Corps	<u>77</u>
Total	266 (163 military)

1966 total through 21 September -- 12,941

1966 average rate per day -- 48.9..

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III. ECONOMIC SITUATION

There were several encouraging economic developments in the week ending 26 September. Retail prices in Saigon decreased to their pre-election levels, and prices of imported commodities remained steady. Free market gold and currency rates declined slightly. GVN sales of imported frozen pork in Saigon apparently are going well. The GVN industrial production index for the first quarter of 1966 showed a nine-percent gain above the corresponding period of 1965.

At the same time, new problems have emerged. The Mekong Delta is threatened by a major flood which could result in the loss of substantial quantities of rice and live-stock. The sharp fall in the number and dollar value of commercial import program import licenses issued during the past three weeks could have an adverse effect on the economic stabilization program.

Prices

1. The week ending 26 September was highlighted by the return of retail prices in Saigon to their pre-election levels. the over-all USAID retail price index declined three percent; the food index was down four percent; and the nonfood index was one percent below the previous week. Although the prices of most meats and vegetables declined, the prices of all three varieties of rice edged up for the second consecutive week. Rice prices, however, are still well below their 1966 highs. Pork bellies were 85 piasters per kilogram on 26 September--the same level prevailing just prior to the elections. The prices of all the nonfood items sampled were steady or slightly lower. (A table of weekly retail prices in Saigon is included in the Annex.)

2. In general, the prices of imported commodities remained unchanged during the week ending 27 September.

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As previously reported, tighter bank credit coupled with the need of importers for cash to pay for shipments now arriving continues to influence the price level of imported goods.

Currency and Gold

3. Free market gold and currency rates declined slightly in the week ending 26 September. The price of dollars and the piaster-dollar cross rate in Hong Kong each moved down one piaster to 168 and 167 piasters per dollar, respectively. MPC (scrip) remained at 115 piasters per dollar for the third consecutive week. Gold fell 6 piasters to 246 piasters per dollar--four piasters above the official rate of 242. (Graphics on monthly and weekly free market gold and currency prices are included in the Annex.)

Sales of Frozen Pork

4. The 1,500 tons of frozen pork purchased in Austria and the Netherlands arrived in Saigon on 18 September. Distribution began on 22 September, when the GVN Office of Supply placed 50 tons on the market. Some 600 tons are being placed in a refrigeration facility on shore, and the remainder will be held aboard ship until sold. Although this is the first time that frozen pork has been marketed in Saigon, sales apparently are going well. Whatever hesitation the public may have had was overcome by pricing the frozen pork substantially below fresh pork and by temporarily closing down the Saigon slaughterhouse.

Impact of the Mekong Flood

5. The Mekong River continues to rise and may cause a major flood disaster in the Delta--possibly one of the worst floods of the century. Chau Doc and Kien Tuong provinces are particularly threatened. Other provinces in danger are An Giang, Kien Phong, Phong Dinh, and Vinh Long. Although the extent of damage to rice in the affected provinces is not yet known, a preliminary survey indicates a loss of 50,000 tons of milled rice in Chau Doc Province alone. According to US Embassy estimates, as much as ten percent of total Delta rice production could be lost.

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6. The flood could also cause a loss of live-stock. Farmers, fearing losses by drowning, are selling cattle and hogs at reduced prices. As long as water on the highway from Chau Doc to Can Tho in Phong Dinh Province is not too deep, livestock can move freely. If the rising waters cut off this road, however, it will become difficult to save the livestock.

Confiscation of Imports

7. According to the Vietnam press, goods belonging to 17 importers including USAID, were confiscated by the GVN for failure to withdraw them from customs within the prescribed 30 days. This is believed to be the first time the GVN has carried out its recently announced policy of confiscation. Although the quantities involved were small, importers may be induced to speed up clearance of their goods and thus help reduce congestion at the port of Saigon.

Commercial Import Program

8. Both the number and dollar value of import licenses issued during the past three weeks have fallen drastically. USAID reports that this decline is caused by: (a) the tightening of bank credit, (b) the large backlog of commercial import program (CIP) commodities for which financing still must be obtained, and (c) confusion among importers about new CIP procedures. Earlier this month Governor Hanh of the National Bank of Vietnam expressed concern about the deceleration in the CIP, noting that a continuation of the level of CIP licensing during July and August was unlikely to have the salutary effect on the stabilization program envisioned by the projected large-scale CIP effort.

Industrial Production

9. The GVN industrial production index for the first quarter of 1966 shows a nine-percent gain above the corresponding period of 1965. This increase was caused mainly by increased output of foodstuffs and beverages as shown by the following index numbers (1962=100).

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	First Quarter 1965	First Quarter 1966
All Industry	160	174
Foodstuffs	106	123
Tobacco and Cigarettes	158	156
Beverages	180	214
Textiles	159	148
Electricity	230	N.A.

In addition, it is probable that increased output of electricity also contributed to the over-all gain although complete data on this branch of industry are not yet available. The seven-percent decline in textile output stemmed mainly from lower production of woven cotton fabrics, gunny bags, and jute yarn and string. Output of cotton yarn and jute fabrics, on the other hand, was well above that of the first three months of 1965.

10. According to the official GVN index, industrial output has risen steadily since 1962--the base year of the index. In 1965, the index showed a gain of 20 percent above 1964 and 36 percent above 1963.

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ANNEX

TABLE

Weekly Retail Prices in Saigon a/

(In Piasters)

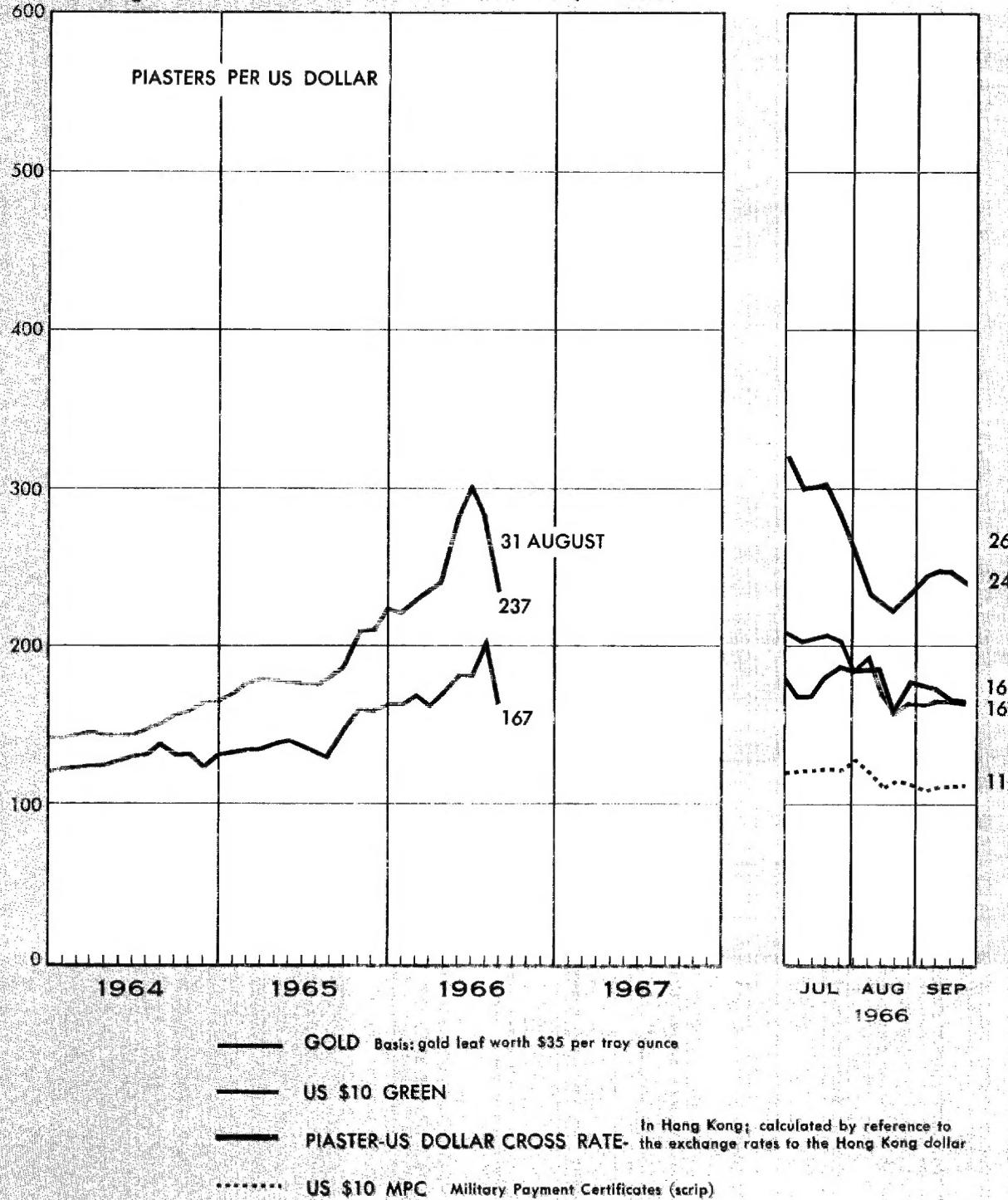
	3 Jan 1966	6 Sept 1966	12 Sept 1966	19 Sept 1966	26 Sept 1966
Index for All Items b/	<u>160</u>	<u>211</u>	<u>249</u>	<u>219</u>	<u>213</u> c/
Index for Food Items b/	<u>169</u>	<u>215</u>	<u>264</u>	<u>227</u>	<u>219</u> c/
Of Which:					
Rice-Soc Nau (100 kg)	800	1,300	1,300	1,320	1,370
Pork Bellies (1 kg)	70	80	180	100	85
Fish-Ca Tre (1 kg)	110	170	220	180	170
Nuoc Mam (jar)	50	85	85	85	85
Index for Nonfood Items b/	<u>124</u>	<u>196</u>	<u>198</u>	<u>192</u>	<u>190</u> c/
Of Which:					
Charcoal (60 kg)	440	660	660	600	590
Cigarettes (pack)	10	14	14	14	14
White Calico (meter)	27	33	34	33	32
Laundry Soap (1 kg)	30	40	40	40	40

a/ Data are from USAID sources.

b/ For all indexes, 1 January 1965 = 100.

c/ Preliminary.

Saigon Free Market Gold and Currency Prices



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